

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> City of Newman	<b>Amount Requested:</b>	\$3,166,900
<b>Name of Project:</b> Wastewater Treatment Plant Storage Basin Expansion Project	<b>Requested Financing Term:</b>	30 years
<b>Project Address:</b> 2600 Hills Ferry Road Newman, CA 95360	<b>Interest Rate:</b>	3.87%
	<b>Tier:</b>	Tier 1
<b>Project Description:</b> Construction of a 39-acre treated wastewater storage basin at the City's existing wastewater treatment plant. The Project includes an irrigation pump station and related piping, a recirculation stub-out and of the re-grading the eastern access road.		
<b>Use of Financing Proceeds:</b> I-Bank loan proceeds will be used for construction, engineering, architectural, design, permit, construction management and the I-Bank fee.		
<b>Source of Repayment:</b> Subordinate Lien on Wastewater System Net Revenues	<b>Form of Financing Agreement:</b> Installment Sale Agreement	
<b>Scoring Criteria:</b>  <div style="margin-left: 40px;"> Project Impact  Community Economic Need  Land Use/Environmental Protection/Housing Element  Leverage  Readiness  <b>TOTAL</b> </div>	<b>Applicant Score</b> <div style="margin-left: 40px;"> 30  15  40  0  <u>5</u>  <b>90</b> </div>	
<b>I-Bank Staff:</b> Carlos Nakata and John Belmont	<b>Date of Staff Report:</b> February 18, 2009	
<b>Date of I-Bank Board Meeting:</b> February 24, 2009	<b>Resolution Number:</b> 09-08	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 09-08 authorizing financing to the City of Newman for the Wastewater Treatment Plant Storage Basin Expansion Project, subject to conditions contained herein.		

## PROJECT DESCRIPTION

The City of Newman (City) has requested ISRF Program financing to fund the Wastewater Treatment Plant Storage Basin Expansion Project (Project). The Project is needed to bring the City's storage capacity into compliance with the Regional Water Quality Control Board's (RWQCB) standards for 100-year storm events and will provide the existing wastewater treatment plant with the ability to handle additional hydraulic loading (See Exhibit 1--Maps).

The Project includes the construction of an unlined 39-acre wastewater storage basin, an irrigation pump station, related piping, a recirculation stub-out, and re-grading of the eastern access road. The storage basin will be unlined, have a maximum design water depth of 12 feet, and a maximum design volume of 135 million gallons. The interior embankment will be protected from water erosion with 4-to-8-inch layer of cobble rock riprap over a geotextile fabric.

The irrigation pump station will be constructed to accommodate the future installation of two vertical turbine pumps, which will be used to pump wastewater from the proposed and existing storage basins. The pumps will be installed when the proposed storage basin is at near capacity or for future expansion of the wastewater system to accommodate growth. The recirculation stub-out pipe will be installed at the southeast corner of the proposed basin to allow for connection to a future pipeline to drain wastewater and re-circulate it to the aeration basins for further treatment.

The Project will provide supplemental wastewater storage located on City-owned land adjacent to the City's existing unlined reservoir. The City's application states that the City does not intend that the Project will increase wastewater flows, but is being constructed at this time to allow the City to come into compliance with the containment of wastewater runoff during a 100-year storm event as required by the RWQCB. Pursuant to a letter from the RWQCB dated September 26, 2008, the RWQCB agrees that the City should construct the Project at this time.

The City states that the Project enhances the City's economic development potential by bringing the City into compliance with the RWQCB flood control standards. Compliance will allow the City to market 30 acres of undeveloped business park land without qualification of the flood control issue. Additionally, as part of the marketing of the City's business park lands, one of the action plans in the City's current General Plan, is to seek assistance from the Stanislaus Economic Development and Workforce Alliance to recruit new firms to the City.

## PROJECT SOURCES AND USES

The City has committed to fund a portion of the Project pursuant to Resolution No. 2007-45. The Project will be financed with City and ISRF Program funds as follows:

PROJECT USES	PROJECT SOURCES		
	I-Bank	City	Total
Construction & Construction Contingency	\$3,000,000		\$3,000,000
Engineering/Architecture/Design/Permits/ Construction Management	\$140,000	\$200,000	\$340,000
I-Bank Loan Origination Fee	\$26,900		\$26,900
Total	\$3,166,900	\$200,000	\$3,366,900

## ELIGIBILITY CRITERIA

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

## CITY INFORMATION

The City is located on the west side of the San Joaquin Valley in Stanislaus County, approximately 30 miles southwest of Modesto and 100 miles south of Sacramento.

The City was incorporated in 1908, under the general laws of the State of California. The City operates under a council-manager form of government. The Council consists of the mayor and four council members. The mayor is elected to a two year term and council members each serve four year terms. Both the mayor and council are elected on a citywide basis.

The major economic base of the City is agriculture and food processing. Employment opportunities are limited due to the absence of major industries in the area. Seasonal jobs, small businesses, and government provide most of the area's jobs. The seasonal nature of agriculture and food processing contributes to the City's high unemployment statistics. The California Department of Finance lists the City's population as 10,302 as of January 2007, which reflects an average annual growth rate of approximately 7 percent over the preceding decade.

## SYSTEM INFORMATION

The wastewater system (System), a secondary treatment system, consists of collection and treatment facilities. The collection part of the System consists of approximately 30 miles of vitrified clay and polyvinylchloride pipe sewer mains ranging in size from 4 inches to 12 inches. Since ground elevations range from 89 feet to 106 feet above sea level throughout the System, there are seven sewer lift stations of which two are four-inch force mains. The collection pipelines empty into two outfall pipelines, an 18 inch vitrified clay pipe and a 21 inch cement-lined ductile iron pipeline that convey the

wastewater to the wastewater treatment plant (WWTP). The collection piping ranges in age from 14 to 30 years old.

The WWTP is permitted for up to 1.69 million gallons per day maximum monthly flow. The City uses an aerated pond system to treat all wastewater generated within the City, and the System boundaries are coterminous with the City limits.

The WWTP consists of a headworks, two aeration basins, an oxidation pond, a recirculation channel and a recirculation pump station. Disposal facilities include a storage basin and disposal fields. Secondary treatment consists of a 60 acre overland flow system and approximately 150 acres of crop irrigation fields. Treated effluent is stored in the winter and used to irrigate alfalfa, terraced grass and corn in the summer. Tailwater from the fields is collected in a tailwater pond and returned to the storage basin. The Project will provide expanded storage basin area.

The aeration ponds, control building and the overland flow treatments are thirty years old, while the existing storage reservoir, tailwater pond and irrigation system is 15 years old.

## CREDIT ANALYSIS

System historical user data as of June 30 of each year shown is included in the following table:

SYSTEM USERS					
	2004	2005	2006	2007	2008
Residential	2,315	2,605	2,860	2,854	2,789
Commercial	122	112	115	125	126
Industrial	4	4	4	4	4
Other	3	4	4	4	4
TOTAL	2,444	2,725	2,983	2,987	2,923

Source: City

The System has experienced average growth of 120 new users over the past four years in the number of users. The City anticipates residential growth of approximately 500 units with its current annexation plans.

Current System usage and revenues are as follows:

<b>CURRENT SYSTEM USAGE AND REVENUE</b>				
	<b>Annual Usage (CCF)</b>	<b>% of Usage</b>	<b>Annual Gross Revenue</b>	<b>% of Total Revenue</b>
<b>Residential</b>	346,020,000	77%	\$892,362	<b>76%</b>
<b>Commercial</b>	8,760,000	4%	\$136,677	<b>12%</b>
<b>Industrial</b>	83,220,000	19%	\$136,208	<b>12%</b>
<b>TOTAL</b>	<b>438,000,000</b>	<b>100%</b>	<b>\$1,165,247</b>	<b>100%</b>

Source: City

Annual usage is concentrated in residential users with 77% of total usage and 76% of total revenue.

The table below compares the System's current average monthly user charge per residential unit with nearby comparable systems.

<b>COMPARABLE RATE DATA</b>	
<b>System Name</b>	<b>Monthly Average Residential Charge</b>
City of Los Baños	\$12.70
City of Gustine	\$17.97
City of Patterson	\$23.46
City of Dos Palos	\$29.45
<b>City</b>	<b>\$30.58</b>

Source: City

The City's current average monthly user charge is higher than other nearby cities. In 2007, the City contracted the services of ECO:LOGIC Engineering to conduct a rate study for the purpose of financing anticipated near-term capital improvements (including the Project) and associated costs.

On March, 11, 2008, the City passed Ordinance No. 2008-3 (Ordinance) increasing wastewater rates recommended by ECO:LOGIC effective May 1, 2008. The Ordinance allows for a 15% increase on July 1, 2009, a 3% increase on July 1, 2010, and an additional 3% increase on July 1, 2011. The Comparable Rate Data table above reflects the May 1, 2008 rates.

The table below lists current top ten users of the System:

<b>SYSTEM TOP 10 USERS</b>		
<b>User</b>	<b>% of System Use</b>	<b>% of System Revenues</b>
1. F & A Dairy	17.34%	8.00%
2. Foster Farms	1.81%	2.55%
3. Avalon Health	1.55%	0.91%
4. Newman Flange	1.23%	0.72%
5. Nob Hill Foods	1.09%	0.64%
6. Yolo Junior High	1.07%	0.72%
7. Orestimba High School	0.69%	0.80%
8. Von Renner Elementary	0.58%	0.79%
9. Hunt Elementary	0.40%	0.55%
10. DiMare	0.11%	0.95%
<b>TOTAL</b>	<b>25.87%</b>	<b>16.90%</b>

Source: City

Three of the top ten users are food processing firms, representing 11.5% of the System's total revenue. Four of the top ten users are schools representing 2.86% of total revenue. The top ten users account for 25.87% of total System use and 16.90% of System revenue.

### **Security and Source of Financing Repayment**

The City proposes to pledge System net revenues for repayment of the proposed financing resulting in a lien on the revenues subordinate to the pledge and lien for its current outstanding 1999 Refunding Certificates of Participation obligation. All System revenues are deposited into and maintenance and operating expenses are paid from the Sewer Fund (Sewer Fund).

Staff reviewed the City's Annual Financial Report for fiscal year ended (FYE) June 30, 2005, 2006 and 2007 (FYE 2008 is not yet available). The independent auditor's report states that the financial statements present fairly in all material respects the financial position of the City, the results of its operations and the cash flows for the audited years consistent with generally accepted accounting principles. Staff also reviewed the City's 2007-2008 and 2008-2009 adopted budgets.

### **Comparative Balance Sheet Analysis**

The Comparative Balance Sheet for the Sewer Fund for the last three fiscal years is as follows:

City of Newman Comparative Fund Balance Sheet Sewer Fund			
For Fiscal Years ended June 30	2005	2006	2007
Source:	Annual Financial Report	Annual Financial Report	Annual Financial Report
<b>Assets:</b>			
Cash and investments	\$ 3,676,973	\$ 4,265,768	\$ 5,007,733
Cash with fiscal agent	\$ 284,983	\$ 287,845	\$ 285,640
Accounts Receivable	\$ -	\$ 109,884	\$ 178,895
Fixed Assets	\$ -	\$ 5,632,632	\$ 5,824,595
Accumulated Depreciation	\$ -	\$ (2,678,981)	\$ (2,806,912)
Due from other funds	\$ 79,461	\$ -	\$ -
Capital assets, net of accumulated depreciation	\$ 3,186,457	\$ -	\$ -
<b>Total Assets</b>	<b>\$ 7,227,874</b>	<b>\$ 7,617,148</b>	<b>\$ 8,489,951</b>
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 11,066	\$ 66,726	\$ 110,566
Accrued interest	\$ 45,694	\$ -	\$ -
Compensated absences	\$ 18,546	\$ 23,636	\$ 24,847
Loan Payable	\$ -	\$ 2,470,000	\$ 2,315,000
Bond Payable	\$ -	\$ 217,000	\$ 205,000
Current maturities of long term debt:			
1991 certificates of participation <sup>(1)</sup>	\$ 150,000	\$ -	
Revenue bonds	\$ 12,000	\$ -	
<b>Total Current Liabilities</b>	<b>\$ 237,306</b>		
<b>Long-term Liabilities</b>			
1991 certificates of participation	\$ 2,470,000		
Revenue bonds	\$ 217,000		
<b>Total Liabilities</b>	<b>\$ 2,924,306</b>	<b>\$ 2,777,362</b>	<b>\$ 2,655,413</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 337,457	\$ 266,651	\$ 907,683
Restricted For Debt Service		\$ 287,845	\$ 285,640
Unrestricted	\$ 3,966,111	\$ 4,285,290	\$ 4,641,215
<b>Total Net Assets</b>	<b>\$ 4,303,568</b>	<b>\$ 4,839,786</b>	<b>\$ 5,834,538</b>
Current Ratio	16.7:1	18.2:1	17.5:1
Working Capital	\$ 3,724,650	\$ 4,296,251	\$ 4,979,960
Debt to Net Assets Ratio	68%	57%	46%
Source: City Annual Financial Report and I-Bank			
(1) This debt was refunded in 1999 and date appears to be an error.			

Note: The City changed auditing firms after FYE 2005, which resulted in changes in the presentation of the financial data above and following. In particular, the last two years of balance sheets do not reflect any current assets and liabilities. To calculate the ratios, staff recasted the balance sheet on a separate worksheet to calculate the current assets and liabilities in order to calculate the current ratio and working capital shown above.

Total Assets increased \$1.26 million, or 17.5%, over the three-years fiscal years 2005-2007, financed by the growth in Net Assets, resulting from the retention of all Change In Net Assets. Additionally, the growth in Net Assets allowed for the reduction of Liabilities through cash flow. Cash & Investments grew the most during the period, increasing \$1.33 million, or 36%, attributed according to the City to its saving of System development, connection and supplemental fee income for current and future capital improvements. The Cash with Fiscal Agent is the debt service reserve account required by the 1999 Refunding Certificates of Participation (1999 COP) (discussed further below). Fixed Assets, Net of Accumulated Depreciation, decreased \$168,774, or 5.3%, over the three year period due to normal depreciation. Liquidity is very strong as seen by the working capital and current ratio.

Total Net Assets increased \$1.53 million, or 36% over the three year period. The Sewer Fund is well capitalized as seen by the strong Debt to Net Assets ratio. It should be noted that the Unrestricted Net Asset for FYE 2007 is \$4,641,215 or 3.48 times the FYE 2007 Operating Expenses.

#### **Comparative Revenues and Expenses Analysis**

The Revenues and Expenses of the Sewer Fund for the last three fiscal years are summarized below:



Sewer Fund						
For Fiscal Years ended June 30,	2005	%	2006	%	2007	%
Source:	Annual Financial Report		Annual Financial Report		Annual Financial Report	
<b>Operating Revenues:</b>						
Fees for service	\$ 2,400,850	100%	\$ -		\$ -	
Service charges			\$ 1,506,809	92%	\$ 1,432,114	93%
Other	\$ 129	0%	\$ -		\$ -	
Miscellaneous	\$ -		\$ 138,509	8%	\$ 116,094	7%
<b>Total operating revenues</b>	<b>\$ 2,400,979</b>	<b>100%</b>	<b>\$ 1,645,318</b>	<b>92%</b>	<b>\$ 1,548,208</b>	<b>100%</b>
<b>Operating Expenses:</b>						
Salaries	\$ 251,585	10%	\$ -		\$ -	
Operating	\$ 226,302	9%	\$ -		\$ -	
Insurance	\$ 28,751	1%	\$ -		\$ -	
Employee services	\$ -		\$ 424,981	26%	\$ 403,452	26%
Supplies and services	\$ -		\$ 705,642	43%	\$ 803,136	52%
Utilities	\$ 175,421	7%	\$ -		\$ -	
Other	\$ 31,160	1%	\$ -		\$ -	
Depreciation	\$ 124,368	5%	\$ 124,964	8%	\$ 127,931	8%
<b>Total operating expenses</b>	<b>\$ 955,117</b>	<b>14%</b>	<b>\$ 1,255,587</b>	<b>76%</b>	<b>\$ 1,334,519</b>	<b>86%</b>
<b>Operating income (loss)</b>	<b>\$ 1,445,862</b>	<b>60%</b>	<b>\$ 389,731</b>	<b>24%</b>	<b>\$ 213,689</b>	<b>14%</b>
<b>Nonoperating Revenues (Expenses):</b>						
Investment Earnings	\$ -		\$ 117,438		\$ 283,089	
Connection Fees	\$ -		\$ 167,760		\$ 251,640	
Development Fees	\$ -		\$ 90,936		\$ 233,778	
Development Contribution	\$ -		\$ -		\$ 146,715	
Interest income	\$ 48,082		\$ -		\$ -	
Interest expense	\$ (135,766)		\$ (139,772)		\$ (132,750)	
<b>Total non-operating revenues (expenses)</b>	<b>\$ (87,684)</b>		<b>\$ 236,362</b>		<b>\$ 782,472</b>	
<b>Income Before Transfers</b>			<b>\$ 626,093</b>		<b>\$ 996,161</b>	
<b>Operating Transfers:</b>						
Operating Transfer In			\$ 11,066		\$ -	
Operating Transfer Out			\$ -		\$ (1,409)	
<b>Total Other Financing Sources (Uses)</b>			<b>\$ 11,066</b>		<b>\$ (1,409)</b>	
<b>Change in Net Assets</b>	<b>\$ 1,358,178</b>		<b>\$ 637,159</b>		<b>\$ 994,752</b>	
Total Net Assets - Beginning	\$ 2,945,390		\$ 4,303,568		\$ 4,839,786	
Prior Period Adjustment			\$ (100,940)		\$ -	
<b>Total Net Assets - Ending</b>	<b>\$ 4,303,568</b>		<b>\$ 4,839,786</b>		<b>\$ 5,834,538</b>	
Source: City Annual Financial Report and I-Bank						

Total Operating Revenues are derived from user fees and charges and miscellaneous revenues. As part of the System, the City disposes some of the treated water by irrigating hay crops. The Other and Miscellaneous revenues are hay sales from City land irrigated with treated wastewater.

Due to the different casting of financial data in FYE 2005, Fees for Service revenues in that year include \$890,875 in Connection Fees, \$91,522 in Developer Fees, and \$311 in Transfers. Deducting these items, Service Charges were \$1,418,251. Given this

adjustment, Operating Revenues fluctuated during the three year period primarily due to the addition of hay sale revenue.

Operating Expenses as a percent of revenues continued to increase for the last three fiscal years, which contributed to the decline of the Operating Income. Over the three-year period, Non-Operating Revenues fluctuated primarily due to the fluctuations in connection and developer fees. Investment Earnings have trended upwards due to the increase in Cash & Investment balances carried by the City.

Operating Transfer In in the amount of \$11,066 for FYE 2006 was a reimbursement by the Congestion Mitigation and Air Quality Improvement Program grant funds for the purchase of a CNG vehicle. Also In FYE 2006, the City made a prior period adjustment in the net amount of \$100,940. The adjustment consisted of a credit in the amount of \$45,694 for the prior year's interest accrual and a debit in the amount of \$146,634 for accumulated depreciation not previously reported.

Staff reviewed the adopted FY 2007-2008 and 2008-2009 Annual Budgets (Budgets) and found the budgets to be consistent with historical revenues and expenses, with revenues trending higher and expenses trending lower.

### Cash Flow and Debt Service Analysis

The City's current and proposed outstanding obligations are as follows:

OBLIGATIONS							
Financing Amount	Original Date	Issuer/Lender	Final Maturity	Interest Rate	MADS <sup>(1)</sup>	Balance 6/30/07	Lien Position/ Repayment Pledge
\$3,455,000	1999	1999 Lease	2018	4.0% to 5.25%	\$282,300	\$2,315,000	Senior lien on System net revenues
\$3,166,900 <sup>(2)</sup>	2009	I-Bank	2038	3.87%	\$192,000	\$0	Subordinate lien on System net revenues
<b>Total</b>					<b>\$474,300</b>	<b>\$2,315,000</b>	

<sup>(1)</sup> MADS means maximum annual debt service.

<sup>(2)</sup> Proposed I-Bank loan with rounded MADS.

On August 1, 1999, the City, through the Newman Public Finance Authority (Authority), issued the Wastewater Treatment Facilities 1999 Refunding Certificates of Participation and the two parties entered into a First Amended and Restated Lease Agreement dated the same date (1999 Lease). The 1999 Lease refunding a 1991 transaction between the City and the Authority and is secured by a senior pledge on the System Net Revenues (Net Revenues is defined as the gross revenues less operations and maintenance expenses).

The 1999 Lease allows, under certain conditions, additional parity debt at 1.00 times MADS coverage on all parity debt and allows additional subordinate debt without restriction. According to the City, the City has performed as agreed under the 1999 Lease.

In addition to the 1999 Lease, the FYE 2007 Annual Financial Report reported the 1978 Bond Payable (1978 Bond) with a principal balance in the amount of \$205,000. The

City provided documentation that the 1978 Bond was paid off on July 27, 2007; therefore, debt service for the 1978 Bond was not included in the table above.

An historical Sewer Fund cash flow and debt service analysis (with and without connection fees) for the proposed financing is presented below:

<b>Cash Flow:</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Operating Income	\$ 1,445,862	\$ 389,731	\$ 213,689
Less Connection Fees	\$ (890,875)		
Less Developer Fees	\$ (91,522)		
Less Transfers In	\$ (332)		
Add depreciation	\$ 124,368	\$ 124,964	\$ 127,931
Interest Income	\$ 48,082		
Investment Earnings		\$ 117,438	\$ 283,089
<b>Cash Available for Debt Service Before Connection Fees</b>	<b>\$ 635,583</b>	<b>\$ 632,133</b>	<b>\$ 624,709</b>
Connection Fees	\$ 890,875	\$ 167,760	\$ 251,640
<b>Cash Available for Debt Service After Connection Fees</b>	<b>\$ 1,526,458</b>	<b>\$ 799,893</b>	<b>\$ 876,349</b>
<b>Debt Service Calculation:</b>			
1999 Refunding COPs	\$ 282,330	\$ 282,330	\$ 282,330
CIEDB Maximum Annual Debt Service	\$ 192,000	\$ 192,000	\$ 192,000
<b>Total Annual Debt Service</b>	<b>\$ 474,330</b>	<b>\$ 474,330</b>	<b>\$ 474,330</b>
<b>Debt Service Coverage Ratio W/ Connection Fees</b>	<b>3.22</b>	<b>1.69</b>	<b>1.85</b>
<b>Debt Service Coverage Ratio W/O Connection Fees</b>	<b>1.34</b>	<b>1.33</b>	<b>1.32</b>
Source: City Annual Financial Report and I-Bank			

The City shows historical repayment ability over the last three years to service the proposed ISRF Program financing and existing debt. Historical coverage ratios both with and without Connections Fees are markedly above the minimum credit criteria of 1.10 times coverage. Given the historical fiscal strength of the Sewer Fund and that there is not an otherwise credit need to require a debt service reserve fund for this financing, staff is recommending that the proposed ISRF Program financing be subordinate to the 1999 Lease, and to not allow any future System obligations senior to the ISRF Program loan. The City has agreed to this modified financial structure.

### **Compliance with I-Bank Underwriting Criteria**

- I-Bank financing is proposed to be a subordinate lien on System net revenues. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio with connection fees, and 1.0 times debt service coverage ratio without connection fees.
- The top ten ratepayers do not exceed 50% of the System's annual revenues.
- Revenues derived from any single ratepayer do not exceed 15% of System revenues.
- The City has the power to establish and enact rates and charges without the approval of any other governing body.
- The City has a mandatory sewer hook-up ordinance in place.

## LITIGATION, MANAGEMENT AND ENVIRONMENTAL

### **Litigation**

The City's application indicates that there is no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

### **Project Management Ability**

The City has contracted with Eco:LOGIC Engineering, an engineering firm, to be the Project Manager with oversight by the City's Public Works Director, Garner Reynolds. Additionally, the City expects to hire Precision Inspection Company of Newman as the Project inspector.

### **California Environmental Quality Act**

A Notice of Exemption for the Project was filed with the Stanislaus County Clerk Recorder on September 24, 2007.

<b>SCORING CRITERIA FOR PRIORITIZING PROJECTS</b>			
<b>POINT CATEGORY</b>	<b>ANALYSIS</b>	<b>MAX PTS</b>	<b>PTS</b>
<b>Project Impact</b>			
<b>Job Creation/Retention</b>	The Project will not directly create or retain any jobs.	<b>30</b>	<b>0</b>
<b>Economic Base Employers</b>	Not applicable.	<b>10</b>	<b>0</b>
<b>Community Employment Development Plan</b>	Not applicable.	<b>10</b>	<b>0</b>
<b>Quality of Life/Community Amenities</b>	<p>The Project will provide significant health and safety benefits since it will enable the City to meet containment of treated effluent runoff during a 100-year storm event as required by the RWQCB.</p> <p>The City states that the Project enhances the City's economic development potential by bringing the City into compliance with the RWQCB flood control standards. Compliance will allow the City to market 30 acres of undeveloped business park land without qualification of the flood control issue. Additionally, as part of the marketing of the City's business park lands, one of the action plans in the City's current General Plan, is to seek assistance from the Stanislaus Economic Development and Workforce Alliance to recruit new firms to the City.</p>	<b>30</b>	<b>30</b>
<b>Community Economic Need</b>			
<b>Unemployment Rate</b>	The City's 2007 unemployment rate was 12.7%, which is 215.3% of the State's 5.9% unemployment rate.	<b>20</b>	<b>15</b>
<b>Median Family Income</b>	According to the 2000 Census, the City's median family income was \$42,523, which is 80.2% of the State's average median family income of \$53,025.	<b>15</b>	<b>0</b>
<b>Change in Labor Force Employment</b>	The City's 2007 increase in labor force employment was 14.29%, which is 896.03% of the State's 1.59% increase in labor force.	<b>10</b>	<b>0</b>
<b>Poverty Rate</b>	According to the 2000 Census, the City's poverty rate was 13.1%, which is 92.3% of the State's 14.2% poverty rate.	<b>10</b>	<b>0</b>
<b>Land Use, Environmental Protection and Approved Housing Element</b>			
<b>Land Use</b>	Land use meets the first priority since it renews and maintains existing rural areas.	<b>20</b>	<b>20</b>
<b>Environmental Protection</b>	The City's wastewater treatment plant is located near the environmentally sensitive San Joaquin River. The Project will protect the environment from potential unauthorized release of wastewater during a 100-year storm event. The Project will contribute to the City's practice of recycling water through the use of treated wastewater to irrigate crops.	<b>10</b>	<b>10</b>
<b>Housing Element</b>	The City has an approved Department of Housing and Community Development General Plan Housing Element.	<b>10</b>	<b>10</b>
<b>Leverage</b>			
<b>Leverage</b>	The City will contribute \$200,000 to the Project as compared to \$3,166,900 in ISRF Program funding, which provides a leverage ratio of 0.06 to 1.	<b>15</b>	<b>0</b>

<b>Readiness</b>			
<b>Readiness</b>	Project construction is scheduled to start in June 2009.	<b>10</b>	<b>5</b>
<b>TOTAL</b>		<b>200</b>	<b>90</b>

## STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 09-08 authorizing financing for the City of Newman for the Project as follows:

1. **Borrower:** City of Newman.
2. **Project:** Wastewater Treatment Plant Storage Basin Expansion Project
3. **Amount of Financing:** Not to exceed \$3,166,900.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of revenue bonds or I-Bank equity funds.
6. **Repayment/Security:** Subordinate lien on the Wastewater System net revenues.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based rates as of February 2, 2009.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing amount and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
  - a. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for senior and parity obligations.
  - b. Net revenues from the Wastewater System may not be pledged on a senior basis. Net revenues of the Wastewater System may be pledged on a parity basis for future financing if net revenues (adjusted for rate increases and system expansion) will provide an aggregate future debt service coverage of 1.10 times maximum annual debt service on all parity debt, inclusive of the proposed financing.
  - c. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- d. An agreement to indemnify the I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
- 11. Conditions Precedent to Execution of I-Bank Installment Sale Agreement:**
- a. Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
  - b. Receipt of an opinion of legal counsel to Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sale Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by revenues of the wastewater system.
  - c. Executed tax certificate.
- 12. Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:
- a. Execution of an Installment Sale Agreement consistent with the terms contained herein.
- 13. Conditions Precedent to Construction Disbursement For Each Project Phase:**
- a. Certification by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:
    - i. Has obtained the land, rights-of-way, easements, and orders of possession that are required for construction.
    - ii. All required permits have been obtained.
  - b. For each construction contract:
    - i. A written statement by the Borrower, the Borrower's legal counsel other individual acceptable to the I-Bank that:
      - 1. All construction contracts necessary for the construction of the applicable Project component have been awarded, and were awarded pursuant to competitive bidding and the Borrower's procedures normally required for similar construction projects.
      - 2. Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report; and
      - 3. Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.
      - 4. All construction contracts are let to the lowest responsible bidder at a fixed price subject to increase only for allowable extra work, change orders approved by the Borrower, and damages or delays authorized by the laws of the State.
      - 5. All construction contracts require: payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.



6. All construction contracts require payment of workers' compensation insurance by contractors and subcontractors.
7. All construction contracts include the nondiscrimination provisions.
8. The Borrower has utilized the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (Chapter 972 of the Statutes of 1999) codified in Public Contract Code Section 20101 et seq.
  - ii. Submittal of a copy of the complete construction contract.
  - iii. Submittal of a copy of the contractor's builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.

**14. Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:

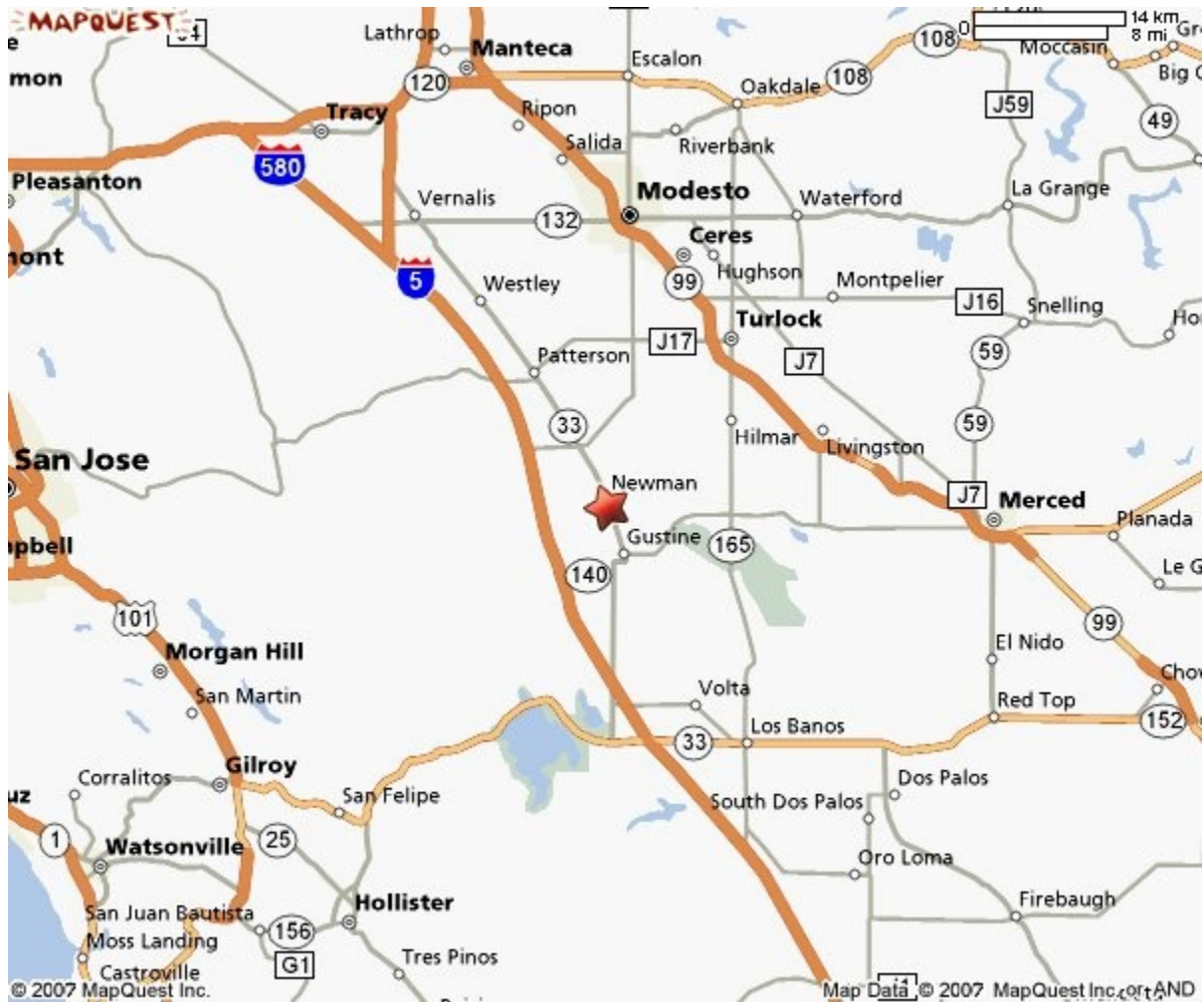
- a. Recorded Notice of Completion or other evidence of completion for each Project component.
- b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
- c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this Staff Report and is acceptable to the Borrower.
- d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.

**15. Financial and Other Reporting Requirements:**

- a. Audited annual Borrower financial statements, due to the I-Bank within 210 days of fiscal year end.
- b. Other information as the I-Bank reasonably may request from time to time.

## EXHIBIT 1 - MAPS

Location of the City



# Project Map

ECO:LOGIC

Consulting Engineers

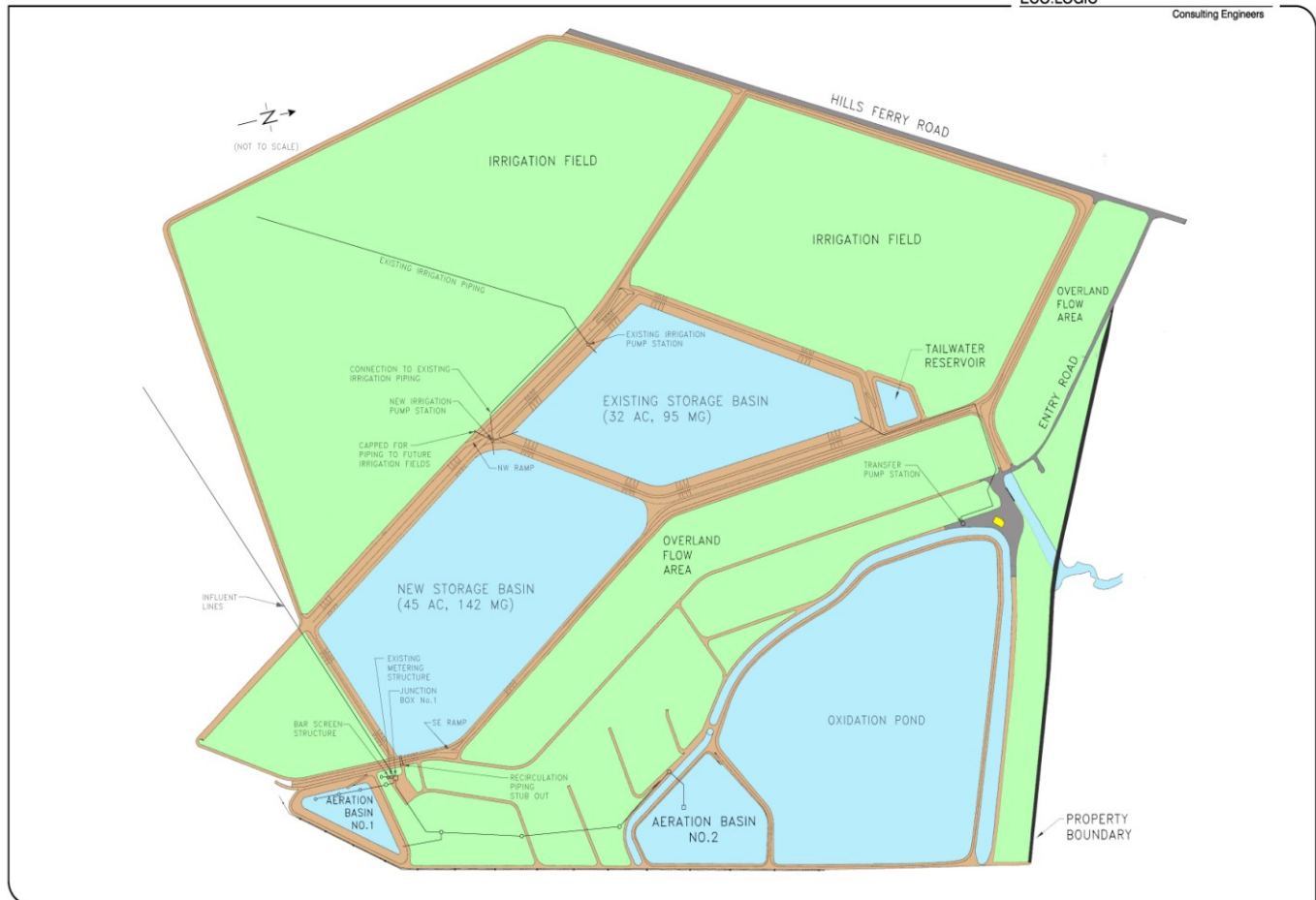


FIGURE 1: NEWMAN WWTP SITE PLAN